



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 9/26/2003

GAIN Report #KE3008

Kenya

Exporter Guide

Annual

2003

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Report Highlights:

This report is intended to guide U.S. suppliers of consumer-oriented high value products target the Kenyan market. Sections on the commercial environment, business tips, market structure and best products prospects are provided.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
Nairobi [KE1], KE

Section I: Market Overview

Kenya's new government which took office in January 2003, was elected on its promises of economic reform. For the last decade, Kenya's economy has performed poorly. In 2000, the growth rate was negative 0.3 %. In the first 9 months of 2003, real growth domestic product (GDP) growth was 1.3%. Slow growth is attributed to a decline in almost all the key sectors, prolonged drought (1999-2000), inadequate power supply, deterioration of infrastructure, pervasive corruption and low aggregate demand. This has led to increased poverty. Fifty seven per cent of the total population lives below the poverty line. Despite the poor recent performance, Kenya remains the most developed economy in East Africa with a GDP approaching \$10 billion. Kenya enjoys an extensive, though deteriorating infrastructure. Mombasa provides deep water facilities to landlocked neighboring countries as well as Kenya. This port with 21 berths, 2 bulk oil jetties and dry bulk wharves, handles all sizes of ships and all types of cargo. Currently the port is undergoing comprehensive restructuring aimed at enhancing efficiency and delivery of service. Kenya's financial and manufacturing industries, while still small, are the most sophisticated in East Africa.

Consumer Market

Kenya has a relatively well educated population of 31.4 million and a strong entrepreneurial tradition. With 44% of its population under the age of 15 years, Kenya has a high dependency ratio. Nairobi, the capital is the largest city and has the highest population density. Most of the population in Nairobi is young - 18 to 37 years. Socio-economic surveys have categorized urban consumers based on their monthly earnings:

- Lower Income - monthly earnings below Kshs. 10,000 (US \$ 125); 29% of the total urban working population.
- Middle Income - monthly earnings between Kshs. 10,000 and Kshs.40, 000 (US \$ 125-500); 59% of the total urban working population.
- Upper Income- monthly earnings of Kshs. 40,000 (US \$ 500) and above; 12% of the total urban working population.

The growing middle class (5-10% of the total population) and the large expatriate community account for the relatively high demand for high value consumer-oriented food items.

Commercial Environment

Good prospects exist for U.S. food and agricultural high value products in the East African market. There is a growing supermarket industry in Kenya and competition is intense. Agents and distributors remain the key to developing export of U.S. consumer-oriented food items. The dominant supermarket chains in Kenya are offering American high value products (nuts, snack, salad dressings, sauces, canned and pet foods etc.).

Establishment of a personal relationship with importers is essential to selling food products in Kenya. There is no established direct presence of American distribution companies in Kenya. Appointing a sole distribution agent in Kenya may be a good strategy for some products. Currently, some Kenyan companies buy from U.S. suppliers and handle all the details of importing. It is important to have a knowledgeable Kenyan company involved on the import side

to address the special characteristics of the Kenyan market.

Advantages	Challenges
On-going restructuring of the Kenyan economy is enhancing free trade.	Long distance to the Kenyan market keeps U.S. shipping costs high, resulting in high product pricing. There are no direct flights or shipping routes to and from the U.S.
Imported products have a positive image in the local market.	Kenyan consumers, importers and retailers are not aware of the wide range of U.S. high value products.
U.S. producers offer quality and a wide range of high value consumer-oriented food products.	High tariff rates and bureaucracy involved in clearing imported foodstuffs discourage importers interested in U.S. food products. Regulatory control is expensive and complicated.
Growing trend of larger retail outlet size due to a growing urban population and exposure to the Western lifestyle.	Relative proximity of South Africa and Europe to the East African market increases competitive posture vis a vis U.S.
Progressive and experienced business business leaders.	

Section II: Exporter Business Tips

Local Business Customs

The principles of customary business courtesy, especially replying promptly to request for price quotations and orders, are a prerequisite for exporting success.

In general, Kenyan business executives are relatively informal and open. The use of first or surname name at an early stage of a business relationship is acceptable. Friendship and mutual trust are highly valued and once this trust is earned, a productive working relationship can be expected.

Like anywhere in the world, negotiation is paramount. Early Indian and Arab influences in Kenya introduced haggling at retail level refined into bargaining at wholesale and distribution levels. Thus, Kenyan businessmen usually drive a hard bargain.

Business gifts are not common but business entertainment like lunches, golf and cocktails help finalize major deals and agreements.

Kenyan businessmen appreciate quality and service and are ready to pay extra if convinced of a product's overall superiority. The market is very price sensitive, however, care must be taken to assure that the delivery dates are closely maintained and that after-sales service is promptly honored. While there are numerous factors that may interfere with prompt shipment, the U.S. exporter should allow for additional shipping time to Kenya and ensure the Kenyan buyer is

continuously updated on changes in shipping schedules and routing. It is better to quote a later delivery date that can be guaranteed than an earlier one that is not completely certain. Since Kenyan importers generally do a lower volume of business than the U.S. exporters, U.S. exporters should be ready to sell smaller lots than is the custom in the U.S.

The U.S. exporter should maintain close liaison with the importer to exchange information and ideas. The importer should serve as a good source of market information and as appraiser of product market acceptance. In most instances, mail, fax or telephone communications are sufficient but understanding developed through periodic personal visits is the best way to keep the importers apprized of new developments and to resolve problems quickly.

Prompt acknowledgment of correspondence by fax or email is recommended.

As is the case in most markets, vigorous and sustained promotion is often needed to launch new products.

General Consumer Tastes and Preferences

The Kenyan market is very sensitive to price. Most of the consumers base their buying decisions more on price than quality. A big share of the food items (over 70 per cent) in the retail and food service sectors are locally manufactured, though there are some imported foodstuffs (refer to HRI and Retail Food Sector Reports). Consumers have a limited awareness of U.S. brands and product range.

Food Standards and Regulations

Imported foodstuffs must comply with standards stipulated by Kenya Bureau of Standards (KBS). In absence of these, Codex Alimentarius (international) standards apply.

In relation to the retail and food service sectors, the most important standards are the "Labeling of prepackaged Foods-KS -05-40 Parts 1-4", which has guidelines on nutritional requirements and claims. The standards are available from KBS at a cost. According to the guidelines, labeling must show manufacture and expiry dates. The label must be in English and/or Kiswahili language. Weights and measure indicators must be in metric and imperial forms.

KBS is currently reviewing all food standards and harmonizing with other standards in the East African region. Imported foods with non-nutritive sweeteners (e.g. aspartame, potassium cyclamate, sodium saccharine etc.) are restricted. If imported, KBS must be informed.

There is no current requirement to label foodstuffs which may contain genetically modified ingredients. A draft policy on biotechnology and related aspects is in place and under discussion by relevant stakeholders.

General import and inspection Procedures

Agricultural goods and products imported into Kenya from overseas countries are all subject to Government regulations as implemented by the Kenya Revenue Authority (KRA) Customs and

Excise Department, Kenya Bureau of Standards (KBS) and Kenya Plant Health Inspectorate Service (KEPHIS).

The Customs and Excise Department collects taxes including import duty, excise duty (both on imports and locally manufactured products), and value added tax (VAT) on imports. KBS inspects all imported processed foods and non-food items, while KEPHIS certifies all exports and imports of bulk, raw agricultural products and planting materials to ensure that they are free from pests and diseases.

There is no import licensing except for a few items restricted for security, health or environmental issues detailed in the Imports, Exports and Essential Supplies Act (Cap 502).

All imports procured by Kenyan based importers must be insured with companies licensed to conduct business in Kenya.

Import Documents

Imports to Kenya may be entered under any of the following categories: for direct home use, warehousing, use in a bonded factory, transit, temporary importation and use in an export processing zone facility.

All Kenyan imports are required to have the following documents: import declaration form (IDF), a clean report of finding (CRF) from the pre-shipment inspection firm, and valid proforma invoices from the exporting firm.

An Import Declaration Form (IDF) is a form filled by the importer showing all goods being imported. The form is subject to government levy of 2.75% of C.I.F. value declared.

During the budget for Fiscal Year 2002/3, the government reduced the 2.75% IDF fees to Kshs.5000 applicable to imported goods used for manufacturing goods for export.

Goods with F.O.B. value of US \$5,000 and above are subject to pre-shipment inspection for quality, quantity and price. A Clean Report of Findings (CRF) report is then issued by one of the two government of Kenya appointed inspection agents: Cotecna Inspections Inc. (in charge of North America region) or Bureau Veritas. The CRF must be obtained and produced at the time of goods clearance. Failure to produce CRF would be of serious consequence, as goods will be held at the port of entry till local inspection is done resulting in high demurrage charges. Random inspections are also undertaken even for shipment of goods with a F.O.B. value below US \$5,000 at the port of entry.

It is advisable to have all documentation ready two weeks before the arrival of sea shipments and one week respectively for airfreight.

Foodstuffs containing radioactive ingredients are subject to radioactive analysis by Ministry of Health. A levy of Kshs. 3000 (US \$ 37.50) is charged for each sample analyzed.

Documents required by Customs and Excise Department.

Depending on the mode of transportation, the following documents are required by the Kenya Customs and Excise Department:

- (a) Original bill of lading for sea freight and air bill for airfreight duly stamped and endorsed at the back by shipper.
- (b) IDF
- (c) Commercial/valid proforma invoice from the exporter.
- (d) Packing list
- (e) CRF where applicable.

Import Taxes

Kenya's import regulations on agricultural products change frequently depending on politics, domestic supply and demand. Currently, the import duty on foodstuffs competing with Kenyan products is 35%. These foodstuffs include meat and meat products, dairy products, poultry and poultry products. To protect the local dairy industry, duty on imported powdered milk is 60%.

Value Added Tax (VAT) is levied on goods imported into or manufactured in Kenya, and taxable services imported or provided. The standard VAT is 16%. Restaurant services are also taxable at 16%.

Excise duties are levied on fruit juices, beer, tobacco products, matches, spirits, wines, mineral water and biscuits. The rates vary for different products; for example, for fruit juices is 10%, biscuits is Kshs.70 per kilogram (US \$ 0.875).

Section III: Market Sector Structure and Trends

Kenya's food retail, food service and food processing sectors are simple but diverse.

Food wholesaling and distribution is relatively simple and direct. There is limited direct importation from the United States. Most high value food products from the US are imported via consolidators in Dubai (United Arab Emirates) or suppliers in South Africa and Europe.

Importing companies or agents sell the goods directly to the supermarkets and hotels and/or through appointed distributors/wholesalers. In contrast to local manufacturers, importers do no promotional activities.

Locally manufactured goods are sold either directly to the supermarkets and the food service sector and/or through appointed distributors.

Food service is a very important sector in the Kenyan tourism industry. Tourism is the third largest foreign exchange earner in the country. Earnings from the sector declined by US \$ 39.5 to US \$ 141 M in the first eight months of 2002 compared with US \$ 180.6M in a similar period in 2001. Tourists arriving at the main international airport (JKIA) declined by 9.5% in the same

period. The slowdown is attributed to deterioration in the global economic environment and the threat of international terrorism.

With the economic growth rate expected to be 1.9 % in 2003, a positive growth is also expected in the food industry.

NOTE: Please refer to the 2002 HRI Food Sector and 2000 Retail Food Sector Reports

Section IV: Best High-Value Product Prospects

Generally a wide range of the dry groceries. Specifically,

- Breakfast cereals
- Snack foods (popcorn, sweets, confectioneries, etc...)
- Canned foods
- Nuts and dried fruits (almonds, peanuts, hazelnuts, walnuts).
- Salad dressings
- Soups and sauces
- Rice (brown long grain US rice and parboiled)
- Bread Spreads (jams, jellies, marmalade, and butter)
- Californian wines
- Energy Drinks
- Processed fruit and energy juices

Section V: Key Contacts and Further Information

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Appendix 1: Statistics

Table A: Key Trade and Demographic Information

	2000	2001	2002	2000	2001	2002
Agricultural Imports From All Countries(\$Mil)/ U.S. market share(%)-1	414	N/A	N/A	6%	0%	0%
Consumer Food Imports From All Countries(\$Mil)/ U.S. market share(%)-1	49	N/A	N/A	3%	0%	0%
Edible Fishery Imports From All Countries(\$Mil)/ U.S. market share(%)-1	4	N/A	N/A	0.05%	0%	0%
Total Population (Millions) - / Annual Growth Rate(%)-2002	31.4				2.1	
Urban Population(Millions) / Annual Growth Rate(%)-3	5.5				3.2%	
Number of Major Metropolitan Areas - 2	1					
Size of Middle Class(Millions)/Growth Rate (%) -3	58%					
Per Capita Gross Domestic Product (U.S. \$M) -2002	399					
Unemployment Rate (%)*	30					
Per Capita Food Expenditures (U.S. \$)-5	240					
Per cent of Female Population Employed -4	81%					
Exchange Rate (US \$1 = Kshs.)- Average Rate 2002	79					

Footnotes

1/ FAS' web-enabled UNTrade database(HS 6-digit option;Import Market Share BICO 3-Yr Format)

2/ Population in excess of 1,000,000

3/Urban working population earning a monthly income of US \$ 125 and above
as as a percentage of total urban working population

4/ Employed Females/Total economically active Female population (15 - 64 years old)

5/Food comprises the largest share of 42.4 per cent of total consumption expenditure
1994 Data on Urban Household Budget Survey

* Data Source- Central Bureau of Statistics-GOK

Other analysts estimate the rate to be over 50% (15 - 64years old)

**Urban Population: 1999 GOK Census

Annual Growth rate of Urban Population 1989 - 1999

Table B: Consumer Food & Edible Fishery Products Imports

Kenya Imports (In Millions of Dollars)	Imports from the World			Imports from the U.S.			U.S Market Share		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
CONSUMER-ORIENTED AGRICULTURAL TOTAL	56	50	49	1	1	2	2	3	3
Snack Foods (Excl. Nuts)	3	3	2	1	1	1	0	0	0
Breakfast Cereals & Pancake Mix	1	1	1	1	1	1	3	4	2
Red Meats, Fresh/Chilled/Frozen	1	1	1	0	1	0	0	0	0
Red Meats, Prepared/Preserved	1	1	1	0	1	0	0	0	0
Poultry Meat	1	1	1	0	0	0	0	0	0
Dairy Products (Excl. Cheese)	8	7	5	1	1	1	0	0	0
Cheese	1	1	1	0	1	0	0	1	0
Eggs & Products	1	1	1	0	0	0	0	0	0
Fresh Fruit	3	2	2	0	0	1	0	0	0
Fresh Vegetables	2	1	1	0	1	1	0	73	55
Processed Fruit & Vegetables	3	3	3	1	1	1	2	1	1
Fruit & Vegetable Juices	2	2	1	1	1	1	0	0	0
Tree Nuts	1	1	1	1	1	1	38	50	13
Wine & Beer	8	8	7	0	1	1	0	1	0
Nursery Products & Cut Flowers	5	5	3	1	1	1	3	0	1
Pet Foods (Dog & Cat Food)	1	1	1	0	0	1	0	0	5
Other Consumer-Oriented Products	21	16	21	1	1	1	4	1	4
FISH & SEAFOOD PRODUCTS	9	5	4	0	1	1	0	0	0
Salmon	1	1	1	0	0	0	0	0	0
Surimi	1	1	1	0	0	0	0	0	0
Crustaceans	1	1	1	0	0	0	0	0	0
Groundfish & Flatfish	1	1	1	0	0	0	0	0	0
Molluscs	0	1	1	0	0	0	0	0	0
Other Fishery Products	8	4	4	0	1	1	0	0	0
AGRICULTURAL PRODUCTS TOTAL	491	339	414	59	23	26	12	7	6
AGRICULTURAL, FISH & FORESTRY TOTAL	503	348	421	59	23	26	12	7	6

Source: FAS' Global Agricultural Trade System using data from the United Nations Statistical Office

Table C: Top 15 Suppliers of Consumer Foods & Edible Fishery Products

Kenya - Imports				FISH & SEAFOOD PRODUCTS (\$1,000)			
CONSUMER-ORIENTED AGRICULTURAL TOTAL (\$1,000)					1998	1999	2000
	1998	1999	2000				
United Kingdom	9133	6925	7859	Spain	42	951	2513
South Africa	0	0	7506	Seychelles	0	0	241
Netherlands	5117	4679	3957	France	0	54	231
Italy	4737	4376	3589	Netherlands	25	4	211
Saudi Arabia	324	925	2372	United Kingdom	420	184	168
Mauritius	1773	1667	2264	Tanzania, Unite	519	272	138
France	2676	1857	1930	Singapore	4	4	114
United Arab Emi	1334	1461	1896	Namibia	0	0	84
Zimbabwe	956	890	1806	India	52	69	36
United States	1184	1390	1569	United Arab Emi	4	31	22
Denmark	3216	1233	1251	Italy	9	12	16
Germany	531	784	1224	Oman	9	9	15
Ireland	1510	1410	1128	Norway	11	32	10
Egypt	373	1280	863	Israel	2	7	4
Spain	765	598	858	Japan	0	7	4
Other	22377	20043	8704	Other	7402	3341	13
World	56042	49560	48798	World	8505	4978	3821

Source: FAS' Global Agricultural Trade System data from United Nations Statistical office (latest figures available).